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USTR for Bennett Harman

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TAGS: ETRD ECON EFIN EC
SUBJECT: ECUADOR ISSUES BALANCE OF PAYMENTS SAFEGUARD MEASURES

REFTEL A: Quito 37
B: State 4902
C: 08 Quito 1178
D: 08 Quito 1144

¶1. (SBU) Summary: On January 22, the GOE implemented balance of payment (BOP) safeguard measures on 627 products (almost all consumer goods) for one year, using a mix of ad valorem tariffs and specific tariffs that exceed its WTO bindings, and quotas. The measure will also apply to Ecuador's FTA partners, who will have to pay both the safeguard surcharges and MFN tariffs. Vice Minister for Trade Egas met with the Ambassador on January 22 to explain the government's rationale for the measures; he encouraged American companies with specific problems to raise them with the GOE. End Summary.

¶2. (U) On January 22, the GOE announced BOP safeguard measures on 627 consumer products for a period of one year, effective immediately. The measures include tariff charges, specific tariffs, and quotas. The first measure is an ad valorem charge of 30-35% in addition to the MFN tariff for certain products, including candies, alcoholic beverages, cosmetics, mobile phones, furniture, and toys. (Note: Many of these products were subject to tariff increases to WTO ceiling levels in November 2008, raising the average MFN tariff at that time for non-FTA partners to 30%, reftel D). The second measure is a specific tariff of $10/pair for certain footwear, $12/kilo for certain apparel products, and 10 cents/kilo for certain ceramic products, in addition to the MFN tariff. The third measure is a quota of either 65 or 70% of 2008 import levels to be applied to, among other products, vehicles and parts, meats, fruit and vegetables including grapes, apples, and pears, breads and cookies, pasta, canned and prepared foods, perfumes, toiletries, tires, suitcases/bags, toilet paper/diapers/tissues, small and large appliances, lamps, bicycles, Christmas ornaments, and pens. (A copy of the measure was e-mailed to Washington agencies on January 22).

¶3. (U) The decree establishes that countries or groups that have preferential trade arrangements with Ecuador, such as the Andean Community (CAN), will now be subject to both the safeguards and MFN tariffs.

Rationale for the Safeguard Measure

¶4. (U) Vice Minister of Trade Eduardo Egas met with the Ambassador on January 22 to explain the measure and its justification. The meeting was only with the U.S. Embassy, but was part of a series of meetings he held that day to explain the measure to Ecuador's main trading partners.

¶5. (SBU) Egas explained that the trade limitations were being

imposed because of the balance of payments pressure created by falling oil prices, declining non-petroleum exports, and a drop in remittances. He added that in addition to falling revenues, Ecuador's access to international finance had been reduced, brought in part by the global financial crisis and compounded by Ecuador's decision to default of some of its official debt. He said that since Ecuador was dollarized, it could not devalue its currency as its neighbors had done. He continued that an alternative to invoking balance of payments safeguards would be to abandon the dollar, which the government was not prepared to do.

¶6. (SBU) Egas said the government estimated that it had an un-financeable trade deficit of $2.2 billion, which he characterized as "optimistic" (Note: He did not provide any further details on how the government established that figure). He said the government was looking to restrict that amount of trade. After discussions with industry on the safeguards, the GOE was imposing restrictions that it believed would inhibit $1.46 billion in trade and would look for alternative financing for the difference.

Scope and Design of the Import Restrictions

¶7. (SBU) Egas said that in 2008 Ecuador imported $17 billion in goods, of which $3 billion were petroleum derivatives, leaving $14 billion in non-petroleum imports. Of those, $3.5 billion were consumer goods, and $10.5 billion were capital and intermediate goods. The government was focusing on limiting consumer good imports, on the grounds that limiting capital and intermediate good imports would inhibit Ecuador's ability to produce exports, which were important to help finance the balance of payments problem.

¶8. (SBU) Egas continued that the government had reached a voluntary agreement with importers on the design of the import restrictions (Note: Initially the government had circulated a proposal that covered more products and imposed sharper limitations than the final measure, including outright prohibitions and 500% tariffs). He said the intent of the agreed measures was to maintain the private sector's business arrangements, even as it reduced the volume of imports to roughly 2007 levels. As part of this arrangement, importers are supposed to maintain employment levels to the extent possible, and remain vigilant against contraband. The Ambassador cautioned that contraband could increase due to the measure. Egas responded that the GOE planned to crack down on contraband, including establishing an anonymous hotline for tips.

¶9. (SBU) Egas said that each major importer would receive a quota for the year, based on historical data from 2006-2008. He said that a small portion of imports, which would vary by product, would be reserved for non-traditional importers. He noted that Ecuadorian Customs had data on imports by tariff line and company, and as of January 22 was ready to implement the quotas. He said that Customs would monitor filling of the quotas and would send out alerts as companies approached the quota limits.

¶10. (SBU) Egas also said that the measure would be in place for one year, but that President Correa was committed to removing it earlier if balance of payment conditions permitted.

WTO Compliance

¶11. (SBU) Drawing on reftel B guidance, the Ambassador stressed that the U.S. expects that Ecuador will comply with its WTO obligations, including notifying the WTO.

¶12. (SBU) Egas asserted that the safeguard measure was designed to be consistent with Ecuador's WTO and other trade obligations. He said that Ecuador would notify the WTO within 30 days and participate in the balance of payments safeguard consultations. He said that in order to make the measure non-discriminatory, it was being applied to all of Ecuador's trade partners, including those with which it had preferential agreements.

¶13. (SBU) Econ Couns asked whether limiting the scope of the measure to consumer goods was in compliance with the WTO guidelines that the safeguards avoid sectoral specificity. In response, Orlando Suarez, Director General for Global Trade Affairs, who also

participated in the meeting, said that exempting capital and intermediate goods would support Ecuador's export sector enabling it to provide relief to the balance of payments crisis.

¶14. (SBU) Egas and Suarez took note of our comment that the IMF could also participate in the WTO consultation process.

Open to U.S. Company Concerns

¶15. (SBU) Egas said that he and others in the GOE were open to hearing specific concerns from U.S. companies, noting that he had already met with three U.S. companies. He said that if they had very specific issues that did not undermine the intent of the safeguard measures, the GOE would look to address them. By way of example, he said that franchisers of U.S. food chains have contractual obligations to import some of their products from the U.S., a matter he said that he would take to COMEXI, the GOE trade policy body.

¶16. (SBU) When we raised the problems U.S. companies were facing with standard certification requirements (reftel C), Egas said that now that the BOP safeguards were in place, the GOE would revisit the certification requirements, implying that the GOE would provide more flexibility in the requirements.

¶17. (SBU) Comment: Ecuador is facing a serious balance of payments problem, along with other problems stemming from falling oil prices, the partial debt default, and the global economic crisis (septel). The GOE needs to find measures to contain the crisis, and in the absence of a floating exchange rate finding measures to curb imports is part of the required response. We doubt that the implemented measures are preferable to a broader measure, such as a surcharge on all imports, but the government's approach of restricting consumer goods and facilitating capital goods is consistent with trade measures that it has implemented over the past two years. While onerous, the implemented measures are less extensive and severe than the measures that the GOE had first planned (outright prohibitions and 500% tariffs), which would have terminated rather than complicated and disrupted trade arrangements between U.S. suppliers and their Ecuadorian customers.

HODGES